

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 PM-07 NSC-10 SS-15 RSC-01 CIAE-00

INR-10 NSAE-00 DODE-00 OMB-01 TRSE-00 AID-20 L-03

IGA-02 H-03 RSR-01 SSO-00 NSCE-00 INRE-00 USIE-00

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FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC IMMEDIATE 2055

S E C R E T SECTION 1 OF 2 MANAGUA 3162

E. O. 11652: GDS

TAGS: PFOR NU

SUBJECT: 1974-1975 CASP

REF: STATE 139681

1. COUNTRY TEAM HAS CAREFULLY REVIEWED REFTEL AND CONSOLIDATED CHANGE SHEET (SEE MANAGUA 3160 FOR COUNTRY TEAM RECOMMENDED CHANGES). EMBASSY APPRECIATES OPPORTUNITY TO REVIEW WITH THE DEPARTMENT THE VARIOUS CONSIDERATIONS INVOLVED IN ARRIVING AT THE 74/75 CASP. IT IS ASSUMED THAT THE RESTATEMENT OF ISSUE #1 AS CONTAINED IN REFTEL CONSTITUTES MERELY A CLARIFICATION OF THE SAME ISSUE AS STATED IN THE ORIGINAL CASP SUBMISSION. THE ROLE OF THE UNITED STATES GOVERNMENT AND THE ASSISTANCE TO NICARAGUA DURING THE RECONSTRUCTION AND RECOVERY PERIOD APPEARS REASONABLY WELL DEFINED. IN OTHER WORDS, THE QUESTION NO LONGER EXISTS AS TO WHETHER THE USG IS GOING TO ASSIST NICARAGUA IN ITS RECONSTRUCTION AND REHABILITATION FROM THE DEVASTATING EARTHQUAKE, BUT AT WHAT LEVEL AND UNDER WHAT CIRCUMSTANCES. WHILE THE EMBASSY FULLY UNDERSTANDS, ENCOURAGES, AND SUPPORTS ALL PHASES OF ECONOMIC, POLITICAL, AND SOCIAL DEVELOPMENT IN NICARAGUA, IT DOES NOT BELIEVE THAT IT WOULD BE TOTALLY APPROPRIATE TO EMPLOY THE LEVERAGE ECONOMIC ASSISTANCE AFFORDS TO ATTEMPT TO BRING UNDUE PRESSURE FOR POLITICAL CHANGE ON A FRIENDLY GOVERNMENT. WE BELIEVE THAT THE PROJECT BY

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PROJECT AND SECTORAL ANALYSIS AID LENDING SYSTEM WILL IN AND OF IT-

SELF BRING ABOUT THE TYPE OF CONSTRUCTIVE AND POSITIVE CHANGES WHICH ARE CONSISTENT WITH US POLICY AND WOULD SERVE TO ADVANCE US OBJECTIVES IN NICARAGUA. WE ASSUME, THEREFORE, THAT THE RESTATEMENT OF ISSUE #1 IS FOR THE PRINCIPAL PURPOSE OF ESTABLISHING AN APPROPRIATE RATIONALE FOR US EFFORTS IN THE COUNTRY.

2. WITH REFERENCE TO PARAGRAPH 3 OF REFTEL, THE COUNTRY TEAM BELIEVES THAT THE MOST PROPITIOUS TIME FOR THE PHASE-DOWN OF THE MAP MATERIEL PROGRAM WOULD BE FY '76 AND THAT UNLESS CONGRESSIONAL RESTRAINTS MAKE EARLIER PHASE-DOWN ABSOLUTELY MANDATORY THAT UNTIL THAT TIME THE LEVEL OF APPROXIMATELY \$750,000 IN MAP AID SHOULD BE MAINTAINED, EXCLUSIVE OF MIMEX. WITH REGARD TO THE STATED PHILOSOPHY AS EXPRESSED BY THE PRE-IG TO "ACCENTUATE PROFESSIONALISM" IN THE GUARDIA NACIONAL, THE COUNTRY TEAM IS IN HEARTY AGREEMENT. THIS IS TOTALLY CONSISTENT WITH THE ON-GOING AND CONTINUING EFFORTS OF THE MILITARY GROUP IN NICARAGUA. IN VIEW OF THE CRITICAL NEEDS OF THE COUNTRY FOR RECONSTRUCTION AND REHABILITATION AT THIS TIME, AND DEVELOPMENTAL PROJECTS FOR THE FUTURE, THE COUNTRY TEAM DOES NOT FORESEE ANY DANGER OF ANY ADVERSE REACTION TO THE SUPPLYING OF PURELY NON-COMBATANT MATERIEL TO THE ENGINEER BATTALION SUCH AS BULLDOZERS, SCRAPERS, DUMP TRUCKS AND THE LIKE, WHICH ARE USED TO INCREASE THE CIVIC ACTION CAPABILITIES OF THE GUARDIA. THE COUNTRY TEAM AFTER CAREFUL ANALYSIS STRONGLY RECOMMENDS A MIMEX FIGURE OF \$1.5 MILLION IN 1975 TO COMPLETE THE PROCUREMENT AND REPLACEMENT OF ENGINEER-CIVIC ACTION EQUIPMENT CRITICALLY NEEDED. THE EMBASSY DOES NOT UNDERSTAND THE STATEMENT CONTAINED IN REFTEL REGARDING THE BELIEF THAT THE EQUIPMENT NEEDED BY THE GUARDIA NACIONAL FOR RECONSTRUCTION WOULD BE DELIVERED BY THE END OF FISCAL '74. THIS STATEMENT IS NOT CONSISTENT WITH ANY BUDGETARY ESTIMATES SUBMITTED BY THE MILGP AND AVAILABLE IN THE POM. ANY PRE-EARTHQUAKE ESTIMATES HAVE OBVIOUSLY BEEN OVERTAKEN BY EVENTS. THE PROPOSED FMS CREDIT WOULD BE USED TO ASSIST THE GON TO MOVE FROM SUBSTANTIAL GRANT AID IN THE FUTURE AND TO MOVE TOWARD FMS CASH AND CREDIT SALES FOR FISCAL '76 AND BEYOND.

3. WITH RESPECT TO THE OMB, TREASURY COMMENTS THAT WE HAD FAILED TO ADDRESS NICARAGUAN PERFORMANCES AND CAPABILITY IN CONSIDERING ASSISTANCE INPUTS WE BELIEVE FIRST THAT THE PRE-IG PROPOSED RECASTING OF ISSUE NO. 2 IS EXCELLENT AND PROVIDES A SOUND MODUS

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OPERANDI FOR DEALING REALISTICALLY WITH THE ISSUES OF PERFORMANCE AND SELF-HELP. WITH RESPECT TO THE RELATION OF ABSORPTIVE CAPACITY TO LOAN LEVEL, WE HAVE THE FOLLOWING POINTS. FIRST, OF THE \$55 MILLION IN LOANS PROPOSED FY 1975 \$30 MILLION ARE FOR A CONTINUATION, NOT TO SAY FINALIZATION OF EARTHQUAKE RECONSTRUCTION ASSISTANCE, SUPPLEMENTING 3 PROJECTS TO BE STARTED IN 1974. NO NEW PROJECTS ARE INCLUDED. IN THE AREA OF HOUSING, SCHOOLS, AND HOSPITALS RECONSTRUCTION NICARAGUA'S ABSORPTIVE CAPACITY IS RE-

GARDED AS EXCELLENT AND THERE IS NO DOUBT ABOUT THE NEED OR ITS
URGENCY. AS TO SECONDARY CITIES THE 1974 AMOUNT OF \$8 MILLION IS
PROPOSED TO BE SUPPLEMENTED BY \$5 MILLION IN LATE 1975 BECAUSE
ALTHOUGH THE NEEDS ARE GREAT THIS IS AN AREA OF UNKNOWN. THE START
PROPOSED IS SMALL BUT WITH ANALYSIS, EXPERIENCE, USE OF THE GON
IMPLEMENTATION CAPABILITY GRANT FUND AND THE FEASIBILITY STUDIES
LOAN WE SHOULD BE LATE 1975 BE IN A HIGHER GEAR IN THIS AREA AND
THUS BE ABLE TO TOP OFF OUR CAPITAL CONTRIBUTION IN THIS KEY AREA.
PERHAPS THE \$30 MILLION ADD-ON PROPOSED FOR FY 1975 SHOULD ALSO
BE TWO YEAR MONEY AND REGARDED AS COMPLETING THE US CONTRIBUTION
TO EARTHQUAKE RELIEF AS SUCH. THIS WOULD CONSTITUTE A TOTAL FOR
THAT PURPOSE OF \$85 MILLION OVER 3 TO 4 YEARS, ENABLING US THEN
TO TURN TO DEVELOPMENT AND TO THE FIVE NEW PRINCIPLES AND POLICIES
OF AID OUTLINED SO WELL IN ASSISTANT ADMINISTRATOR KLEINE'S
MESSAGE NO MISSION DIRECTORS, STATE 140073.
SHELTON

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ACTION ARA-20

INFO OCT-01 ADP-00 PM-07 NSC-10 SS-15 RSC-01 CIAE-00

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FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC IMMEDIATE 2056

S E C R E T SECTION 2 OF 2 MANAGUA 3162

4. AS TO THE COMMENT THAT WE ARE PROPOSING TOO MUCH DEVELOPMENT
AID IN 1975, AS DISTINCT FROM RECONSTRUCTION WE HAVE THESE COMMENTS.
FIRST, KLEINE'S MESSAGE TO MISSION DIRECTORS URGES PRECISELY THE
KIND OF DEVELOPMENT PROGRAM WE HAVE PROJECTED. THE \$25 MILLION
PROPOSED IS ENTIRELY FOR THE KIND OF INNOVATIVE APPROACHES TO
SOLVING THE PROBLEMS OF LOW-INCOME CITIZENS TO WHICH KLEINE REFERS
AND INDICATES CONGRESS REGARDS AS IMPORTANT. \$16 MILLION OF THE \$25
MILLION IS FOR INNOVATIVE PROGRAMS IN NON-FORMAL RURAL EDUCATION

AND RURAL HEALTH DELIVERY SYSTEMS, \$5 MILLION IS FOR COLONIZATION, A REVERSE MIGRATION EFFORT TO OPEN NEW DOORS OF OPPORTUNITY TO URBAN POOR AND REFUGEES; THE BALANCE OF \$4 MILLION IS FOR A HIGHLY EXPERIMENTAL PROJECT AIMED AT ATTACKING RURAL POVERTY IN A NEW WAY - BY TAKING A LIMITED GEOGRAPHIC AREA WITH GEO-ECONOMIC UNITY AND LAUNCHING A COORDINATED ATTACK USING ALL KNOWN TECHNIQUES - HEALTH - EDUCATION - AGRICULTURE, MARKETING, TRANSPORT, ETC. -- TO TRY TO SOLVE THE PROBLEM OF THE POOR IN THAT LIMITED GEOGRAPHIC AREA BY FINDING THAT NEW FORMULA OF INPUT COMBINATIONS THAT WORKS. THIS IS AN AREA OF SPECIAL CONCERN IN CENTRAL AMERICA, IDENTIFIED BY THE MDCC AS AN AREA OF CONCENTRATION IN THE CATEGORY OF SPECIAL DEVELOPMENT PROBLEMS.

5. IN SUMMARY WE DEFEND THE PROPOSED LOAN LEVEL FOR FY 1975 OF \$55 MILLION AS REFLECTING A DESIRABLE AND FINAL \$30 MILLION

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ONE-SHOT ADD-ON FOR RECONSTRUCTION AND AN INITIAL \$25 MILLION EFFORT IN EXPERIENCED HANDS TO MAKE AID'S NEW DEVELOPMENT PHILOSOPHY AND POLICIES A REALITY IN NICARAGUA.

6. THE RECOMMENDED CU LEVEL FOR FY '74 IS \$59,739, HOWEVER, SEE A-5459 OF JUNE 25 IN WHICH CU INDICATED THAT THE ALLOCATION IS PREPARED TO TAKE IS \$50,000.

7. IN CLOSING, IT WOULD PERHAPS BE USEFUL IN SUMMARY TO SAY THAT IT IS THE COUNTRY TEAM'S STRONG VIEW THAT THE ABSORPTIVE CAPACITY OF NICARAGUA IS ENCOURAGINGLY GOOD. THE COOPERATION AND EFFORTS OF THE GOVERNMENT AND THE PRIVATE SECTOR ARE ALSO THOROUGHLY ENCOURAGING. THE WILLINGNESS OF THE GON AND ITS PEOPLE TO DO EVERYTHING NECESSARY IS ONE OF THE MOST HEARTENING ASPECTS OF THE RECOVERY EFFORT. WE BELIEVE, THERE ARE, THAT ON BALANCE THE PROJECTION FOR THE CASP TIME FRAME CAN BE CONSIDERED FAVORABLE AND ENCOURAGING ON THE BASIS OF BOTH POLITICAL AND ECONOMIC AND SOCIAL PROJECTIONS.
SHELTON

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